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TOPICS

» New regime for Private Equity (PE) investments likely soon

As per the news article published on May 6, 2009 in the Economic Times, the financial sector regulators in India viz. SEBI, RBI, FIPB and officials from Finance Ministry and the India Venture Capital Association are discussing and working at clearly defining □private equity□ investments and evolving a regulatory structure for facilitating inflows through this route.

Currently, the term □private equity□ is broadly defined, although there are sub-categories such as venture capital (investments into start-ups and early stage companies), growth capital (equity investments in mid-late stage companies), leveraged buyouts (ideal for companies with higher leverage, higher margins and stable cash flows), buyouts (ideal for promoters looking for exit opportunities) and distressed or special situations.

Regulators are also working towards forming an association similar to the Association of Mutual Funds of India for collating all data pertaining to PE investments in the country as currently, data on PE investments and foreign direct investments are combined together. Most of the information on PE flows is sourced from private aggregators.

<u>FVCI Applications</u>

As per the news article, in another development, RBI may review its recent decision of clearing foreign venture capital investor□s (Foreign VCF) applications with sectoral restrictions. The central bank recently had started clearing the applications backlog of many Foreign VCFs that were adequately capitalized. Though while clearing the applications, RBI inserted a new clause that restricted investments by these Foreign VCFs to certain sectors on the lines of similar prescriptions under the Income Tax Act, 1961 for availing of a tax pass-through for SEBI registered venture capital funds whereby Foreign VCFs were permitted in 10 sectors, including infrastructure, biotechnology, hardware and software development, nanotechnology, seed research and development, R&D of new chemical entities in pharma sector, dairy industry, poultry industry, production of bio-fuels and hotel-cum-convention centres with seating capacity of more than 3,000.

Policymakers are wary of venture fund investments in the real estate sector and are refusing to clear the applications of interested Foreign VCFs. Though in 2004, SEBI had removed real estate from the negative list to encourage inflows but this sector does not figure either in the negative list or the list of sectors approved for venture capital fund investments.

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